

October 26, 2007

Eric A. Cioppa, Acting Superintendent
Attn: Vanessa J. Leon (Docket No. INS-07-1000)
Bureau of Insurance
Maine Dept. of Professional and Financial Regulation
34 State House Station
Augusta, Maine 04333-0034

Re: Anthem BCBS 2008 Individual Rate Filing for HealthChoice

Dear Acting Superintendent Cioppa:

Enclosed for filing please find two hard copies of the following:

SUBMITTED BY: Christina M. Moylan, AAG
DATE: October 26, 2007
DOCUMENT TITLE: Attorney General's Closing Argument
DOCUMENT TYPE: Closing Argument
CONFIDENTIAL: No

Copies are also being served this date in the manner indicated on the enclosed Certificate of Service.

Sincerely,

/s/ Christina M. Moylan

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CMM/s

Enc.

c: Thomas C. Sturtevant, Jr., AAG
Christopher T. Roach, Esq.
Judith M. Shaw, Deputy Superintendent
James Bowie, AAG

**STATE OF MAINE
DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION
BUREAU OF INSURANCE**

IN RE:)	
)	
ANTHEM BLUE CROSS AND BLUE)	
SHIELD 2008 INDIVIDUAL RATE)	
FILING FOR HEALTHCHOICE AND)	ATTORNEY GENERAL'S
HEALTHCHOICE STANDARD)	CLOSING ARGUMENT
AND BASIC PRODUCTS)	
)	
Docket No. INS-07-1000)	

Pursuant to the Superintendent's request, the Attorney General submits this Closing Argument in further support of the points made at the October 22, 2007 hearing and in the Pre-filed Testimony of Beth R. Fritchen.

I. Base Period for Projecting Claims.

The Attorney General expressed concern both through discovery and in the Pre-filed testimony of Beth Fritchen (the Attorney General's consulting actuary) that the experience period upon which Anthem was basing its projected 2008 claims was not appropriate. Specifically, since Anthem's more recent claims experience showed significant improvement, we argued that the projected claims should be adjusted accordingly. We recommended moving the base period from the 12-months ending April 2007 to that ending June 2007, which yielded an average rate increase of 12.3% (all else being equal).

Anthem has since submitted a revised filing requesting an average rate increase of 13.3%, down from 18.6%. The main reason for the significant reduction in the proposed rates, as described in the pre-filed and live testimony of Anthem's actuary, William Whitmore, is a new

base period using more recent experience, namely the 12-months ending July 2007. As Ms. Fritchen testified at the October 22, 2007 hearing, she believes Anthem has now selected an appropriate base period for projecting 2008 claims.

The Attorney General is pleased that Anthem has recognized that updating rate filings to reflect significant changes in claim experience is important to the integrity and accuracy of the rating process. As a general proposition, so long as there is adequate opportunity to review the data and calculations and all requisite notice to subscribers, those updates add credibility to the rating process regardless of the direction of the resulting adjustment.¹

II. Trend.

In her pre-filed testimony, Ms. Fritchen recommended a 14.7% trend be applied to base claims to project needed revenue for the rating period. She stated at the hearing that this recommendation is unchanged by Anthem's revised filing. The only difference between Ms. Fritchen's trend and Anthem's trend of 15.1% (updated from 15.2% in its original filing) is Ms. Fritchen's adjustment to account for the volatility of large claims. Ms. Fritchen recommends smoothing large claims over the period and trending them at an annual rate of 30%.

The Superintendent recognized in his 2007 HealthChoice decision that the impact of large claims should be taken into account in calculating the trend. He ultimately applied a 34.4% trend to large claims in this block of business in the 2007 Dirigio Choice rate case (which was based on the overall trend for HealthChoice). As illustrated by hearing exhibit Anthem BCBS Ex. 9, last year's trend for large claims turned out to be 31.3% -- very close to the 30% Ms. Fritchen recommended last year, as well as this year.

¹ That is not to say that the Attorney General would never object to an upward adjustment of a rate proposal revised to reflect more recent experience. For example, to the extent we had concerns that the original experience was already overstated or that other components of the filing resulted in overstated rates, we might believe that an upward adjustment to the proposed rates was not warranted.

Mr. Whitmore testified that a 35-40% trend for large claims reasonably could be applied in calculating the appropriate overall trend. On cross-examination, Ms. Fritchen conceded that 35% was within the range of reason (although she stuck to her 30% as more likely to be accurate) and that applying the 5% difference to trend large claims would probably adjust her 14.7% trend up to approximately the 15.1% selected by Mr. Whitmore. It bears noting that the corollary is also true. Whether the better large claims trend is Ms. Fritchen's 30% or Mr. Whitmore's 35-40%, adjusting Mr. Whitmore's trend for large claims at all would bring his number down from 15.1% since he has made no adjustment for large claims. Given that Ms. Fritchen's 30% estimate for large claims last year was closer to the mark than the 34.4% allowed, and far more accurate than Anthem's lack of an adjustment resulting in an artificially inflated overall trend, her estimate should be given added deference this year. Regardless of the outcome on this particular issue, it is important to note that all parties now agree that adjusting the trend to account for volatile large claims is appropriate.

III. Rate increase conclusion.

After updating for the month's difference in her base period (including a corresponding adjustment for the impact of that change on the enrollment shift adjustment) and making the other minor changes to the rate calculation relating to the hearing aid mandate and the reduction of the savings offset payment, Ms. Fritchen calculates a 12.8% rate increase. As previously noted, Anthem already accepted the Attorney General's recommendation on base claims, thereby addressing our primary concern and substantially lowering its requested increase. Nonetheless, a 12.8% increase is more appropriate than 13.3% in light of the necessity of making an adjustment to trend to account for large claims.

IV. Rate relativities.

Anthem has conceded that the most recently filed proposed rates for the 65+ age group do not comply with section 8(B) of Rule 940, resulting in higher relative increases for this age band. In light of the post-hearing announcement that Anthem would not be applying the 1.5 age factor to this age group, instead setting those rates at the same level as the 55-64 age band, there is no remaining concern that the rates violate Rule 940.

V. Conclusion.

The only remaining difference between Mr. Whitmore's and Ms. Fritchen's calculations is the appropriate trend, more specifically the impact of large claims on the overall trend. The estimates of both Anthem's actuary and the Attorney General's consulting actuary are reasonable. In addition to Anthem's acknowledgement that adjusting for large claims is appropriate and the accuracy of Ms. Fritchen's prediction on large claims last year, the rates should be set at the lower end of the range of reasonable estimates because of the vulnerability of the HealthChoice population. It is better to err on the side of the members, for whom it is much harder to bear a mistake of even .5% than it would be for a company the size of Anthem, with practically limitless resources available to it to absorb any such mistake.

Dated: October 26, 2007

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The undersigned counsel for the Attorney General hereby certifies that on this date I caused to be mailed by electronic mail, hand-delivery or United States first class mail, postage prepaid, as indicated, copies of the Attorney General's Closing Argument upon the persons and at the addresses indicated below.

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